

Message Text

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ACTION ARA-06

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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC IMMEDIATE 6564

INFO PANCANAL

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C O N F I D E N T I A L SECTION 1 OF 3 PANAMA 0749/1

LIMDIS

C O R R E C T E D C O P Y (CAPTION ADDED - LIMDIS)

LIMDIS

E.O. 11652: GDS

TAGS: PN PINT

SUBJECT: GOVERNMENT BUSINESS CONFRONTATION: THE POLITICAL
IMPLICATIONS

REF: PANAMA 0748

SUMMARY: THE TASK FACING TORRIJOS NOW THAT THE ACUTE PHASE
OF THE GOP PRIVATE SECTOR CONFRONTATION HAS PASSED IS HOW TO
PREVENT THE AFFAIR FROM ACCELERATING THE DECLINE IN PANAMA'S
ECONOMY AND FROM ERODING HIS POLITICAL SUPPORT. HE HAS
ENJOYED SOME SUPPORT ON BOTH SIDES OF THE POLITICAL SPECTRUM,
BUT IF RECENT EVENTS AND TORRIJOS' MANNER OF HANDLING THEM
CAUSES THE MODERATES TO MOVE INTO OPPOSITION, THEN HE WILL
BE FORCED TO DEPEND MORE HEAVILY ON THE LEFT. SOME
MODERATE ARE AWARE OF THIS AND ARE DETERMINED NOT TO LET
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IT HAPPEN. WE BELIEVE TORRIJOS WILL TRY TO AVOID THIS AS

WELL. HIS TASK WILL BE COMPLICATED BY THE DIFFICULTIES HE AND OTHER TOP NATIONAL GUARD LEADERS HAVE IN UNDERSTANDING THE NEEDS OF THE PRIVATE SECTOR AND VICE VERSA. COMMUNICATION BETWEEN THE TWO GROUPS IS MADE DIFFICULT BY DEEP CLASS AND CULTURAL DIFFERENCE. MOREOVER, SOME BUSINESSMEN NOW APPEAR TO BE DETERMINED TO ORGANIZE OPPOSITION TO THE GOVERNMENT AND ERODE TORRIJOS POWER AND SUPPORT. SUCCESS IN NEGOTIATIONS WOULD EXERT A MODERATING INFLUENCE ON TORRIJOS AND HELP PREVENT ANY RADICALIZATION OF PANAMANIAN POLITICS. ALTHOUGH TORRIJOS REMAINS FIRMLY IN COMMAND, HIS POLITICAL SUPPORT IS GRADUALLY WANING BECAUSE OF TIME IN OFFICE, ACCUMULATED PROBLEMS, AND ECONOMIC PROBLEMS DUE TO BOTH EXTERNAL AND INTERNAL FACTORS. END SUMMARY

1. THIS MESSAGE EXPLORES THE REASONS FOR TORRIJOS' DIFFICULTIES WITH THE PRIVATE SECTOR AND OFFERS SOME THOUGHTS ABOUT THEIR POTENTIAL IMPACT ON THE FUTURE COURSE OF PANAMANIAN POLITICS. THE LATTER ARE NATURALLY TENTATIVE AS THE CONTROVERSY IS STILL UNDERWAY AND DECISIONS YET TO BE MADE WILL HAVE AN IMPORTANT BEARING ON FUTURE DEVELOPMENTS. WHAT IS CRYSTAL CLEAR NOW IS THAT THE CONFRONTATION AND CONSEQUENT DETERIORATION OF RELATIONS BETWEEN THE GOVERNMENT AND KEY ORGANIZATIONS IN THE PRIVATE SECTOR HAS THE POTENTIAL TO CAUSE SERIOUS LONG-TERM POLITICAL AND ECONOMIC PROBLEMS FOR TORRIJOS' GOVERNMENT AND FOR PANAMA.

2. AT THE HEART OF TORRIJOS' PROBLEM IN GRAPPLING WITH THE ISSUE OF BUSINESS CONFIDENCE AND "LEFTISM" ARE OPPOSING PERCEPTIONS, HELD BY TORRIJOS AND TOP NATIONAL GUARD OFFICERS ON THE ONE HAND AND LEADERS OF THE PRIVATE SECTOR ON THE OTHER, OF WHAT THE PRIVATE SECTOR NEEDS TO FUNCTION SMOOTHLY AND OF WHAT THE REVOLUTION REPRESENTS. COMPOUNDING THESE DIFFERENCES ARE DEEP SOCIAL AND CULTURAL DIFFERENCES BETWEEN THE REVOLUTION'S LEADERS AND THE LEADERS OF THE BUSINESS SECTOR (PRIMARILY UPPER-MIDDLE AND UPPER CLASS).

3. TORRIJOS HAS SOUGHT TO PROJECT HIMSELF AS A POPULAR
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NATIONALIST LEADER STRUGGLING TO PERFECT PANAMA'S INDEPENDENCE AND STRIVING TO ELEVATE THE SOCIAL, ECONOMIC AND POLITICAL STATUS OF PANAMA'S URBAN AND RURAL POOR. HE HAS BEEN TRANSFORMING PANAMA'S PRE-1968 ECONOMY, WHICH HAD BEEN A FREE, UNRESTRICTED 19TH CENTURY LIBERAL TYPE ECONOMY, INTO A MIXED ECONOMY IN WHICH STATE AND PRIVATE ENTERPRISES EXIST SIDE BY SIDE. DOMINANT ECONOMIC POWER WOULD REST WITH THE GOVERNMENT,

BUT LATITUDE WOULD BE LEFT FOR THE PRIVATE SECTOR TO FUNCTION. TORRIJOS BELIEVES STATE INTERVENTION IS NECESSARY IN ORDER TO TIP THE SCALES IN FAVOR OF THE UNDERPRIVILEGED WHICH HAVE BEEN "MARGINALIZED" OR UNABLE TO PARTICIPATE IN PANAMA'S SOCIAL, POLITICAL AND ECONOMIC LIFE. TO ACCOMPLISH THESE CHANGES, A STRONG GOVERNMENT GIVING PRIORITY TO THE NEEDS OF THE LOWER CLASSES IS NEEDED. TORRIJOS ARGUES THAT HE IS NOT HOSTILE TO BUSINESSMEN PER SE BUT ONLY TO THE SELFISH AND UNSCRUPULOUS.

4. TORRIJOS' EXPERIMENTATION AND OCCASIONAL CHANGES OF OPERATING RULES HAVE BEEN DISCONCERTING TO BUSSINESSMEN WHO MUST PLAN INVESTMENTS WITH SOME ASSURANCE THAT THE RULES AND CONDITIONS UNDER WHICH THEY OPERATE WILL NOT CHANGE ABRUPTLY OR WITHOUT PRIOR CONSULTATION. AND THE MEN WHO HAVE BEEN INTERPRETING THE LABOR CODE AND MAKING JUDGEMENTS IN LABOR-MANAGEMENT DISPUTES HAVE BEEN BIASED IN FAVOR OF LABOR AND HAVE APPEARED TO VARY THEIR INTERPRETATIONS WHIMSICALLY.

5. LEADERS OF APEDE AND CONEP REGARD THE PROGRAMS, REGULATIONS AND INTERPRETATIONS BY THE TORRIJOS GOVERNMENT, COUPLED WITH THE LEFTIST RHETORIC OF SOME OF THE REVOLUTION'S SPOKESMAN AND THE TONE AND CONTENT OF THE GOP-GUIDED RADIO LIBERTAD AS EVIDENCE THAT TORRIJOS IS TRANSFORMING THE COUNTRY INTO A SOCIALIST OR EVEN COMMUNIST STATE. EDUCATION REFORM HAS BEEN A PRIME TARGET OF CRITICISM BY CONSERVATIVES. THE REVOLUTION HAS GIVEN INCENTIVES, NOT ENJOYED BY INDEPENDENT FARMERS, TO PEASANT SETTLEMENTS AND COOPERATIVES. (THIS WAS ONE REASON FOR THE RICE GROWERS ANGER AND PROTEST IN CHIRIQUI). ALSO THE

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GOVERNMENT HAS ESTABLISHED ONE LARGE STATE-CONTROLLED SUGAR MILL AND IS BUILDING THREE MORE. THEIR COMPETITION WILL PROBABLY FORCE THE PRIVATE MILLS OUT OF BUSINESS AS THE STATE SUGAR INDUSTRY HAS BEEN GIVEN SPECIAL EXPORT PRIVILEGES. COMMUNAL JUNTAS ARE ENCOURAGED TO COMPETE WITH LOCAL STORES, SERVICE INDUSTRIES AND SMALL MANUFACTURERS.

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ACTION ARA-10

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NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 NSCE-00

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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC IMMEDIATE 6565

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6. TORRIJOS REPEATEDLY HAS SAID HE WANTS TO ACHIEVE SOCIAL AND ECONOMIC CHANGE AT THE LOWEST POSSIBLE SOCIAL COST. HE HAS CONCLUDED, HOWEVER, THAT PEACEFUL CHANGES DESIGNED TO ACHIEVE GREATER SOCIAL JUSTICE AND GREATER CENTRAL CONTROL OVER KEY SECTORS OF THE ECONOMY CANNOT BE ACCOMPLISHED THROUGH NORMAL DEMOCRATIC MEANS. ALTHOUGH HE PERMITS A DEGREE OF POPULAR PARTICIPATION AND CONSULTATION, TORRIJOS DOES NOT WANT TO RISK TRYING TO ACCOMPLISH HIS GOALS IN THE TUMULT OF ELECTION CAMPAIGNS, OPEN DISSENT, OR POLITICAL PARTY ACTIVITY. THE BUSINESS COMMUNITY IN LARGE MAJORITY WOULD LIKE TO HAVE ALL THREEE, OR, PERHAPS MORE IMPORTANT, AN IMPORTANT VOICE IN SHAPING POLICIES.

7. PROFOUND SOCIAL AND CULTURAL DIFFERENCES EXIST BETWEEN THE MEN WHO DIRECT THE REVOLUTION AND THE LEADERS OF PANAMA'S ENTREPRENUERAL CLASS. THE REVOLUTION'S LEADERS DO NOT FEEL COMFORTABLE IN THE COMPANY OF MEMBERS OF THE BETTER-EDUCATED MORE SOPHISTICATED UPPER AND UPPER-MIDDLE CLASSES. THE LATTER DO NOT HIDE
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THEIR DISDAIN FOR THE FORMER AND OFTEN MAKE FUN OF THE MANNERS OF TODAY'S HOLDERS OF POLITICAL POWER. MUTUAL

RESENTMENT, DISLIKE AND ANGER ARE NATURAL PRODUCTS OF THIS SITUATION. CONSEQUENTLY, WITH SUCH EXCEPTIONS AS PRESIDENT LAKAS, MINISTER OF PLANNING AND ECONOMIC POLICY BARLETTA AND A FEW "TECHNICIANS" IN THE CABINET -- NONE OF WHOM EXERCISE DOMINANT CONTROL OVER THE REFORM PROGRAMS OR LEGISLATIVE PROCESS -- THE REVOLUTION HAS FEW MEN SENSITIVE TO THE NEEDS OF THE PRIVATE SECTOR. IN THIS ENVIRONMENT, OPEN AND SINCERE COMMUNICATION ON ECONOMIC, POLITICAL OR IDEOLOGICAL ISSUES IS MADE DIFFICULT AND AT TIMES IMPOSSIBLE.

8. AS THE THE EMBASSY HAS POINTED OUT PREVIOUSLY, THE GOVERNMENT, UNABLE TO RELY UPON CONSISTENT SUPPORT FROM THE MAJORITY OF CONSERVATIVES OR THE LEADERSHIP CADRES OF THE EX-POLITICAL PARTIES, SOUGHT THE SUPPORT OF CERTAIN "POPULAR" AND LEFTIST ORGANIZATIONS AND HAS TRIED TO SUBORN, MANIPULATE AND/OR CONTROL SOME OF THEM. THESE VARIOUS ORGANIZATIONS "SPEAK FOR" TEACHERS, PEASANTS, SOME WORKERS, STUDENTS AND SO ON. IN SOME SECTORS, MOST NOTABLY STUDENTS AND LABOR, THE GOVERNMENT'S ABILITY TO CONTROL IS LIMITED BY THE EXISTENCE OF SEVERAL COMPETING ORGANIZATIONS. NEVERTHELESS, WHEN CALLED UPON TO DO SO, THESE GROUPS CAN PROVIDE DEMONSTRATIONS OF POPULAR SUPPORT FOR THE GOVERNMENT. SOME OF THE LEFTIST GROUPS LINKED TO THE COMMUNIST PARTY, CAN TAKE ADVANTAGE OF CRISIS SITUATIONS, PARTICULARLY WHEN THE GOVERNMENT IS IN CONFLICT WITH THE PRIVATE SECTOR, TO OBTAIN CONCESSIONS WHICH IN EFFECT NUDGE THE GOVERNMENT LEFTWARD. THEY SEEK TO MOVE THINGS INCREMENTALLY AS THEIR IMMEDIATE OBJECTIVES ARE TO WEAKEN THE PRIVATE SECTOR, PREVENT OR DISTORT COMMUNICATION BETWEEN THE GOVERNMENT AND LEADERS OF THE PRIVATE SECTOR, AND CREATE A GENERAL ANTI-CAPITALIST AND ANTI-AMERICAN ATMOSPHERE.

9. PRIVATE BUSINESSMEN ON THE OTHER HAND, REQUIRE AN ATMOSPHERE OF STABILITY AND DEFINITE GROUND RULES. THESE ARE NECESSARY TO INDUCE ENTREPRENEURS TO MAKE INVESTMENTS WHICH REQUIRE YEARS TO PAY OFF. THIS
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CLIMATE CAN BE DISRUPTED BY ISOLATED ACTIONS OR DECISIONS. THE TORRIJOS GOVERNMENT HAS BEEN RELATIVELY INSENSITIVE TO THIS REALITY, EXCEPT IN THE CASE OF THE BANKING COMMUNITY. THE GOP SEEKS TO PLACATE BUSINESSMEN THROUGH SPECIFIC FAVORABLE WORDS, PRESS ARTICLES, OR ACTIONS AND CANNOT UNDERSTAND WHY BUSINESS IS UNWILLING, INDEED CANNOT, TURN ITS COOPERATION ON AND OFF, AS THE LEFT DOES, FOR PARTICULAR THINGS AT SPECIFIC TIMES.

10. THE ENVIRONMENTAL FACTORS DESCRIBED ABOVE WERE SIGNIFICANT IN BRINGING ABOUT THE CONFRONTATION WHICH RESULTED IN THE EXPULSION FROM PANAMA OF 11 PROMINENT PANAMANIAN, THE REPRESSION OF PROTESTS BY BUSINESS LEADERS AND A SHARP DETERIORATION IN THE GOP-PRIVATE SECTOR RELATIONSHIP. MOREOVER, THESE ATTITUDES WILL COMPLICATE FUTURE EFFORTS TO RESORE BUSINESS CONFIDENCE. THE GOVERNMENT'S MOST VEHEMENT CONSERVATIVE CRITICS HAVE CONCLUDED THAT IT HAS BEEN GOING LEFTWARD DELIBERATELY. IN ADDITION, THEY ACCUSE IT OF BEING A CORRUPT MILITARY DICTATORSHIP WITHOUT GENUINE POPULAR SUPPORT. THEY REGARD THE PRESENT TREND AS MOVING TOWARD THE EXTERMINATION OF THE PRIVATE SECTOR. THEY CREDIT, OR RATHER BLAME, US ASSISTANCE PROGRAMS FOR GIVING TORRIJOS THE WHEREWITHAL TO STAY IN POWER AND THEY FEAR A NEW TREATY WOULD PERPETUATE HIM IN POWER.

11. THESE PERCEPTIONS, PLUS THE ECONOMIC SQUEEZE EXERTED ON THE PRIVATE SECTOR BY A DECLINING ECONOMY CONSTITUTED THE STIMULUS FOR CATTLEMEN, RICE GROWERS AND LEADERS OF APEDE AND CONEP TO ORGANIZE PUBLIC OPPOSITION TO THE GOP DURING THE RECENT MEETINGS IN CHIRIQUI AND SUBSEQUENT PROTESTS IN PANAMA CITY. NO DOUBT THESE WERE POLITICALLY MOTIVATED AND INTENDED TO FORCE THE GOP TO CHANGE ITS POLICIES. FAILING THAT, THE LEADERS WOULD TRY TO ORGANIZE BROAD OPPOSITION AND POPULAR DISCONTENT WHICH WOULD EVENTUALLY TOPPLE TORRIJOS FROM POWER.

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12. THE GOVERNMENT PERCEIVED WHAT THE LEADERS OF THE CHIRIQUI MEETINGS INTENDED TO DO. BUT INSTEAD OF MOVING SUBTLELY TO REDUCE PRESSURES, AND EASE FEARS OF THE BUSINESS COMMUNITY AS A WHOLE, IT REACTED BY EXPATRIATING SEVERAL LEADERS AND ARRESTING OTHERS. ADDITIONAL REPRESSIVE ACTIONS AGAINST PROTESTS IN PANAMA CITY HAVE DIMINISHED, IN OUR VIEW, THE SUPPORT THE GOVERNMENT HAS ENJOYED IN THE POPULATION AT LARGE. THE NUMBER OF BUSINESSMEN CONCERNED ABOUT THE GOVERNMENT'S ACTIONS AND DIRECTION HAS INCREASED. FEELINGS ON BOTH SIDES HAVE BECOME EMBITTERED. REPORTEDLY THE GOVERNMENT WILL REPATRIATE THE MEN WHO WERE EXPELLED, BUT THAT WILL ONLY BEGIN TO REPAIR THE DAMAGE THAT HAS BEEN DONE TO COOPERATIVE AND FRUITFUL GOVERNMENT-PRIVATE SECTOR RELATIONS AND TO INVESTOR CONFIDENCE.

13. SOME OF THE GOVERNMENT'S MOST VEHEMENT OPPONENTS CLEARLY INTEND TO CONTINUE THEIR OPPOSITION, THOUGH MOST OVERT ACTIVITIES AND PROTESTS HAVE BEEN EFFECTIVELY SQUELCHED. THEY MAKE NO SECRET OF THE INTENTION TO CONFIDENTIAL

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WITHHOLD INVESTMENTS AND TO UNDERTAKE "PASSIVE" RESISTANCE. ONE INTELLIGENCE REPORT INDICATES A CLANDESTINE RADIO MAY ALREADY BE OPERATING IN THE MOUNTAINS OF CHIRIQUI. RUMORS OF TERRORIST ACTIVITIES AND BOMBINGS ARE CIRCULATING, BUT THESE THREATS COMING FROM THE CONSERVATIVE RIGHT HERE ARE NOT AS CREDIBLE AS THEY WOULD BE IN OTHER COUNTRIES. THIS IS A COMMERCIALLY-MINDED COUNTRY. PEOPLE HERE HAVE NOT TRADITIONALLY BEEN INCLINED TOWARD VIOLENCE.

14. IT STILL IS TOO EARLY TO CALIBRATE WITH CERTAINTY THE DIRECTION AND EXTENT OF THE CONSEQUENCES FLOWING FROM THESE EVENTS, PARTICULARLY AS THE CRISIS IS NOT TOTALLY OVER YET AND BOTH SIDES STILL HAVE DECISIONS TO MAKE. NEVERTHELESS, EXTREMES SUCH AS TOTAL CAPITULATION BY TORRIJOS TO THE CONSERVATIVES' DEMANDS OR A SUDDEN DELIBERATE TURN TO THE LEFT BY THE GOP CAN BE RULED OUT. NOR WILL THERE BE A PANIC FLIGHT BY THE PRIVATE SECTOR.

15. ONCE THE SITUATION CALMS DOWN SOMEWHAT TORRIJOS

WILL MAKE SOME EFFORT TO COURT "GOOD BUSINESSMEN."
THESE EFFORTS WILL BE HINDERED BY THE DIFFERENCES IN
PERCEPTION OUTLINED IN PARAGRAPHS 2 THROUGH 6
ABOVE. HOW BUSINESSMEN RESPOND TO THE GOP WILL BE
OF CRUCIAL IMPORTANCE. SOME BUSINESSMEN AND
OLIGARCHS ARE AWARE OF THIS AND WILL SEEK TO PERSUADE
THEIR COLLEAGUES WHO HAVE GONE INTO THE OPPOSITION
TO WITHDRAW FROM DISRUPTIVE ACTIVITIES THAT COULD
PROVOKE THE GOVERNMENT.

16. A FEW BUSINESS LEADERS ARE EAGER NOT TO FORCE
TORRIJOS TO DEPEND SOLELY UPON LEFTISTS FOR SUPPORT.
PRESIDENT LAKAS, MINISTER BARLETTA AND A FEW OTHER
OFFICIALS WHO UNDERSTAND THE NEEDS OF THE PRIVATE
SECTOR CAN ALSO BE EXPECTED TO WORK ENERGETICALLY TO
BRING ABOUT A RAPPROACHMENT. THESE MODERATES IN THE
GOP AND OUTSIDE WILL TRY TO MAKE TORRIJOS AND BUSINESS-
MEN ALIKE UNDERSTAND THAT PANAMA'S ECONOMIC WELL-BEING IS
DEPENDENT UPON GOOD GOVERNMENT-PRIVATE SECTOR RELATIONS.
THE OBSTACLES FACING TORRIJOS AND THE MODERATES,
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HOWEVER, ARE FORMIDABLE.

17. EVEN WITHOUT THE CURRENT POLITICAL CONFLICT,
CONTINUED ECONOMIC DECLINE, AND CONSEQUENT BUSINESS
PESSIMISM WAS IN STORE FOR THE NEXT FEW MONTHS.
RECENT EVENTS HAVE EXACERBATED THIS TREND, AND IN
TURN DEEPEN TORRIJOS' POLITICAL TROUBLES. LEFTISTS
GROUPS ARE AWARE OF ALL OF THESE FACTORS AND WILL
WORK TO WIDEN THE GAP BETWEEN TORRIJOS AND THE PRIVATE
SECTOR.

18. AN IMPORTANT FACTOR AFFECTING LONG-TERM TRENDS
WILL BE THE STATE OF US-PANAMANIAN RELATIONS. IF
PANAMA APPEARS TO BE MOVING TOWARD THE UNITED STATES
AND PARTICULARLY TOWARD A TREATY, BUSINESS CONFIDENCE
WOULD BE GIVEN A BOOST. ALSO, SUCCESS IN THE
NEGOTIATIONS WOULD PROVIDE A STRONG MODERATING INFLUENCE
ON THE GOVERNMENT AND SOCIETY, WHEREAS FAILURE WOULD
ALMOST INEVITABLY FORCE A RADICALIZATION.

19. CONCLUSION: BITTERNESS AMONG MANY IN THE BUSINESS
COMMUNITY OVER THE RECENT GOP ACTIONS PLUS THE PROBLEMS OF
UNDERSTANDING THAT STAND BETWEEN BUSINESS LEADERS AND THE
GOVERNMENT WILL MAKE IT IMPOSSIBLE FOR TORRIJOS TO HAVE REALLY
GOOD RELATIONS WITH THEM WITH THE NEXT YEAR OR SO, EVEN
THOUGH HE MAY BE ABLE TO PREVENT PROGRESSIVE DETERIORATION
IN HIS GOVERNMENT'S RELATIONS WITH THE PRIVATE SECTOR.
GIVEN THE GOVERNMENT'S POOR TRACK RECORD IN

STIMULATING CONFIDENCE IN THE PRIVATE SECTOR, THE DIFFERING PERCEPTIONS DESCRIBED ABOVE, THE GROWING CRITICISM OF THE GOVERNMENT BECAUSE OF CORRUPTION AT HIGH LEVELS, AND THE APPARENT DETERMINATION BY THE OPPOSITION TO PERSIST IN ITS ACTIVITIES, WE ANTICIPATE THAT TORRJOS' POPULARITY AND PUBLIC SUPPORT WILL GRADUALLY WANE. WE DO NOT ANTICIPATE, HOWEVER, ANY SHARP TURNS, BUT RATHER AN EVOLVING SITUATION.

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